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Message Text

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TAGS: EAIR, UK

SUBJECT: US-UK CIVAIR NEGOTIATIONS: CAPACITY

1. FOLLOWING ARE TALKING POINTS PREPARED BY ART SIMMS RE SEAT FACTOR STANDARDS FOR CAPACITY CONTROL, AS REQUESTED BY O'MELIA:

A. APPLICATION OF A FIXED LOAD FACTOR STANDARD INEVITABLY LEADS TO THE KIND OF MECHANICAL AND A PRIOR APPROACH TO FIXING CAPACITY WHICH IS ENTIRELY ANTITHETICAL TO US PRINCIPLES OF DOING BUSINESS AT HOME AND ABROAD. THE AIRLINES SHOULD BE FREE TO CONDUCT THEIR BUSINESSES FREE OF GOVT RESTRAINTS SUBJECT TO THE FORCES OF MARKETPLACE DEMAND WITH GOVT INTERVENTION ONLY TO PREVENT DUMPING. THE CONTRARY APPROACH LEADS TO COMPLACENT HIGH LOAD FACTOR SERVICE WITH HIGH RATES OF TURNDOWN OF PASSENGERS, NO INCENTIVE TO HOLD DOWN COSTS, THUS RESULTING IN HIGH FARES AND MEDIOCRE
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SERVICE. THE EXPERIENCE ON THE CONTINENT SO DEMONSTRATES

B. APPLICATION OF A LOAD FACTOR STANDARD IS A COMPLEX PROCESS AND UNLESS APPLIED BLINDLY INVOLVES A HOST OF JUDGMENTS FOR WHICH STANDARDS MUST ALSO BE ESTABLISHED WITH THE END RESULT THAT THE ENTIRE PROCESS IS BOGGED DOWN AND IMPOSSIBLE FOR GOVTS TO CONTROL. THE LOAD FACTOR STANDARD

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MUST BE LOOKED AT ON A CITY PAIR MARKET BASIS AND THE SERVICE NEEDS OR REQUIREMENTS OF CITY PAIRS DIFFER GREATLY IN DENSITY, SEASONALITY, MATURITY OF THE MARKET, COMPETITION, BUSINESS OR PLEASURE TRAFFIC, BREAKDOWN LOAD FACTORS (WHICH ARE A FUNCTION OF YIELDS AND COSTS), ETC. ALL THESE FACTORS MUST BE TAKEN INTO ACCOUNT IN ANY REASONABLE ASSESSMENT OF CAPACITY AND CAN JUSTIFY VERY DIFFERENT LOAD FACTOR STANDARDS ON A MARKET BY MARKET BASIS. ANY SCIENTIFIC APPLICATION OF A LOAD FACTOR STANDARD MUST CONSIDER AIRCRAFT TYPE AND SEATING CONFIGURATIONS AS WELL AS FREQUENCIES.

C. INJECTION OF A LOAD FACTOR STANDARD ON CAPACITY CAN LEAD DIRECTLY TO THE SAME HIGHLY-MANAGED APPROACH WHICH THE BRITISH HAVE TOUTED ON FARES. ALTHOUGH THE BRITISH WILL ARGUE THAT A RELATIVELY HIGH LOAD FACTOR STANDARD WILL ENSURE THE PROVISION OF LOW FARES, IN FACT THE MARKET MUST BE FREE IF LOW FARE INCENTIVES ARE NOT TO STAGNATE. FOR EXAMPLE, THE PRESENCE OF CHARTER CARRIERS FREE TO PROVIDE UNLIMITED CAPACITY IN THE MARKET HAS WITHOUT DOUBT RESULTED IN LOW FARES AND THE ENTRANCE OF LAKER INTO THE MARKET ON THE US FULLY COMPETITIVE PREMISE, PERMITS CARRIERS FREEDOM TO INNOVATE IN THE FARE AREA. CONTROLS DO NOT.

D. THERE IS NO PRESENT NEED FOR A LOAD FACTOR STANDARD BECAUSE THERE IS NO PRESENT REASON TO EXPECT CARRIERS TO PROVIDE EXCESS CAPACITY. BRITISH AIRWAYS 1976 NORTH
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ATLANTIC LOAD FACTOR EXCEEDED 60 PERCENT. THERE IS NO LONGER THE EXCESS OF EQUIPMENT IN THE US INDUSTRY THAT MAY HAVE RESULTED IN EXCESS CAPACITY IN THE PAST.

E. THE US POSITION PAPER SUBMITTED TO THE BRITISH IS A SUFFICIENT ASSURANCE THAT THIS GOVT IS COMMITTED TO PREVENT EXCESS CAPACITY IN THE FUTURE AND THE ESTABLISHMENT OF A SPECIFIC LOAD STANDARD FACTOR IS, THEREFORE, AN UNNECESSARY INTERFERENCE WITH THE CARRIERS' FLEXIBILITY IN PROVIDING THEIR SERVICES. VANCE

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